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CURRENT INTELLIGENCE WEEKLY SUMMARY

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PART I**OF IMMEDIATE INTEREST****TAIWAN STRAIT SITUATION**

The Chinese Nationalists stepped up their air activity over the mainland on 23 and 24 September. Communist jet fighters reacting in large numbers to Nationalist penetrations apparently suffered their heaviest losses to date, particularly on 24 September. No Nationalist losses were reported, and some of the Nationalist fighters used Sidewinder air-to-air missiles for the first time with considerable success.

Nationalist pilots have been increasingly aggressive in inviting and initiating air engagements over the mainland, reflecting the mounting danger that the Chinese Nationalists might take more significant unilateral military action against the mainland. Chiang Kai-shek told several high American officials on 23 September that the Kinmen resupply problem must be solved within two weeks. This was a modification of a position he took on 12 September, when he said that drastic steps would have to be taken if the resupply effort did not show marked improvement in five days. Chiang also emphasized on 23 September that if Tatan and Erhtan islands, which he described as being in a perilous state, were attacked, the Nationalists would employ all resources to meet the attack.

The Nationalist Government has attempted to increase pressures on the United States to increase its commitments to assure the retention of the offshore islands.

The most immediate and critical problem in the strait

situation continues to be the interdiction of the Kinmens. Since American naval forces began on 7 September to escort convoys to the three-mile limit, the resupply deliveries by sea and air have averaged about 100 tons a day. As of 23 September, the Kinmen garrison had on hand sufficient rations and ammunition--the two most important supply categories--to sustain it for slightly more than a month. Increases in the daily tonnage delivered could extend this period. Increased Communist interdiction efforts, together with expected poor weather at this time of year, could, however, prevent any extension.

Communist Action

Chinese Communist military action remained primarily concentrated on interdicting supplies to the Kinmens. Artillery fire is still directed at supply areas and targets of opportunity, with heavier concentrations being laid on resupply convoys.

Communist naval units have generally avoided clashes with Nationalist forces. On 21 September, however, the Nationalists reported that two subchasers and a patrol escort engaged five Communist craft, probably torpedo boats, near the Matsus. One of the Communist craft was reported sunk, another damaged.

The Communists have taken steps to improve their air defenses. High-altitude bursts near Kinmen suggest that they are now using 100-mm. antiaircraft guns, and radar-aimed searchlights have been observed on Amoy Island.

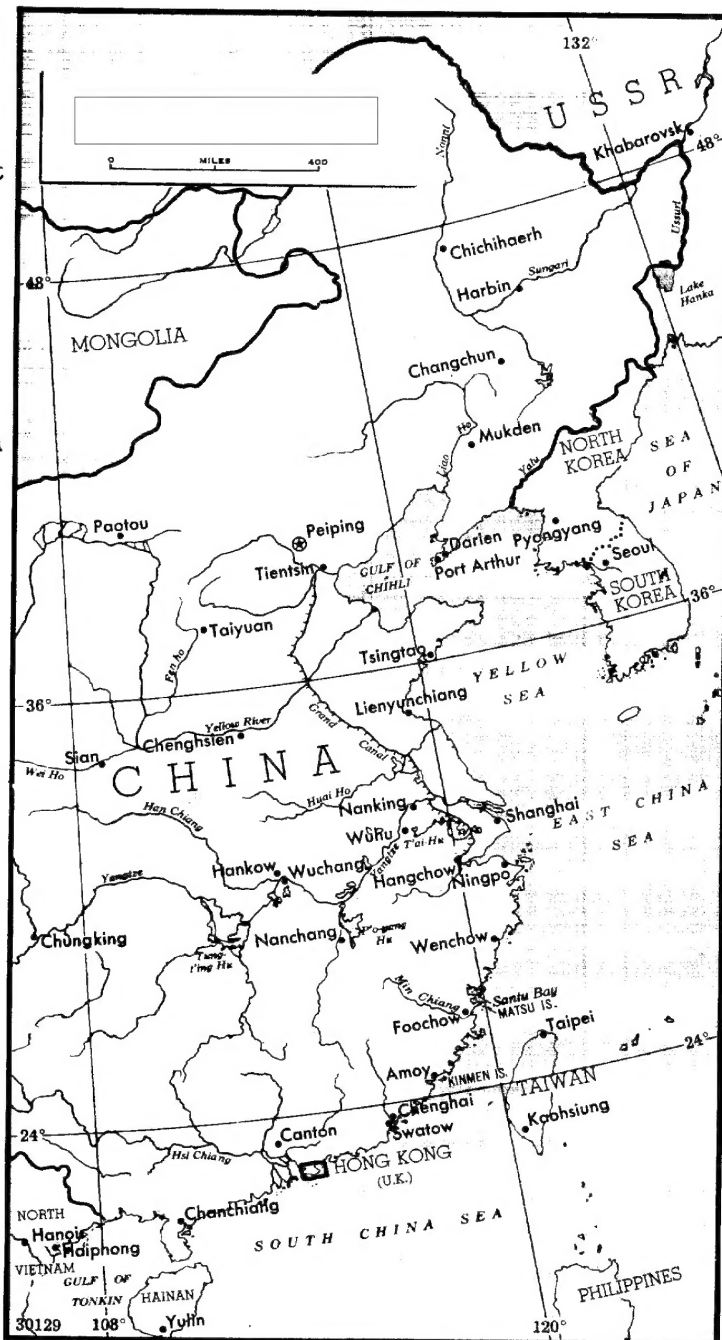
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A People's Daily editorial on 21 September for the first time in recent months publicly reflects the Peiping leaders' actual comprehension of American nuclear capability, stating, "We know very well the immense destructive power of atomic weapons." Although the editorial repeats Peiping's generalized boast that "people and not weapons" are decisive in war, it declares that any American nuclear attack on the mainland would result in an attack on the United States "by the same means." The passage on retaliation is attributed by the editorial to Khrushchev's 19 September letter to President Eisenhower, suggesting that Communist China does not possess nuclear weapons of its own.

In a slight moderation of Peiping's earlier threats against the United States, the same editorial states that 600,000,000 Chinese will only fight "if" the United States should "impose war on us." A 23 September editorial in the Peiping Kwang-ming Daily, a leading government newspaper, carries this line even further. After announcing "We will never attack unless attacked; if attacked, we will certainly

counterattack," the article adds, "The Chinese people have never intended to fight with the United States."



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Peiping continues to number its warnings against the "intrusions" of American naval and air forces, making its 12th on 24 September. The Communists are attempting to demonstrate that such actions are frequent and are the cause of tensions, which will subside only after the numerous armed "provocations" cease rather than after agreement is reached on a ceasefire. There is still no indication in these warnings that Peiping considers that American convoying activities warrant direct military counteraction at this time.

The Chinese Communists appear increasingly anxious to head off any international demands for an immediate ceasefire without significant concessions to Peiping. Their propaganda insists that a ceasefire should not be the immediate aim of the talks in Warsaw and calls for the withdrawal of American forces from the Taiwan Strait area. A People's Daily editorial on 22 September states, "Beyond this, all other talks are pure nonsense." In an effort to stimulate world-wide apprehensions and to prod the United States into political concessions Soviet as well as Chinese commentaries continue to stress the threat of war if negotiations on the present dispute fail.

Khrushchev's Letter

Premier Khrushchev's letter of 19 September to President Eisenhower placed the USSR firmly on record as "fully supporting" Communist China. After

repeating his earlier warning of 7 September that "an attack on the Chinese People's Republic... is an attack on the Soviet Union," he alluded to the Sino-Soviet mutual defense treaty and declared: "May no one doubt that we shall completely honor our commitments."

Khrushchev called on the United States to withdraw its forces from the area, including Taiwan, and warned that if such action is not taken, Communist China "will have no other recourse but to expel the hostile armed forces from its own territory...."

The letter--termed by the American Embassy in Moscow as probably the clearest warning the USSR has made in the post-war period that it is willing to engage in direct military action with the United States--gives the impression that American accommodation to the Chinese Communist position provides the only alternative to major hostilities. The clear restatement of Soviet support for Peiping is intended to discourage an expansion of American military activity in support of Nationalist forces.

Moscow reacted to the rejection by the United States of Khrushchev's letter with press and radio charges that the action violates "generally accepted" diplomatic practices.

Warsaw Talks

Since the start of the Sino-Soviet American ambassadorial

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talks in Warsaw, Soviet propagandists have consistently deprecated the possibility of successful results on grounds of American insincerity, claiming that this view is substantiated by intensification of American military preparations and evacuation of American dependents from the Taiwan area. Soviet domestic broadcasts have charged that the United States "has rejected in advance any prospect of a peaceful settlement" of the strait issue.

According to the American Embassy in Moscow, the crisis has not given rise to popular

apprehension and scare buying in the USSR, as did the Middle East crisis of last summer. Western diplomats in Moscow are generally in agreement that the Soviet leadership does not want or expect war to develop from the strait situation.

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MIDDLE EAST DEVELOPMENTS

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Lebanon

Increased Christian-Moslem tension, the result of a recent wave of kidnappings and the murder of a Christian editor in Beirut, has made much more difficult Shihab's task as president of Lebanon and has increased the danger of Moslem-Christian fighting.

Shihab's appointment of Tripoli rebel leader Rashid Karame to head a cabinet composed of minor political figures with no pro-Chamoun members appears to be a major concession to the rebels and to Nasir. The inclusion of several active opposition supporters and the awarding to Karame of the portfolios of defense and interior are an almost total defeat for the pro-Chamoun faction. The fact that the Damascus press on 23 September predicted the composition of the present cabinet may give it a "made in Cairo" label and build up pro-Chamoun and Phalangist opposition which

will result in efforts to block confirmation by Parliament on 30 September.

President Shihab has evaded responsibility for maintenance of the country's internal security by vesting it in Karame's hands.

The attacks by Christian Phalangists on Moslems on 24 September are likely to result in retaliation, and there is danger that the security forces will split along confessional lines.

The situation is complicated further by possible Syrian intervention. Syrian Interior Minister Sarraj, who is strongly anti-Western, reportedly wants to prolong tension in Lebanon in order to prevent stabilization short of complete subservience to the UAR.

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25X1 [redacted] This extremist pressure is also aimed at moderate opposition leaders and President Shihab. About 300 armed men from Syria have reinforced opposition leader Jumblatt southeast of Beirut. Supplies brought by this group include winter clothing for Jumblatt's men. Lebanese army officers fear this move may reflect an intention to intimidate the Shihab government.

Jordan

A UN representative is scheduled to arrive in Jordan about 24 September to establish a "watchdog" mission there to report on interference in Jordan's internal affairs by neighboring Arab states. Nasir has in effect indicated that he will not cooperate with this mission, however, and the government-controlled Cairo press has denied that Nasir agreed to establish elements of such a mission in the UAR.

Iraq

25X1 Internal maneuvering for power in Iraq continues as Premier Qasim, supported by a group of older officers and Minister of Guidance Shanshal, as well as by the Communists, strives to further downgrade Vice Premier Arif, who fronts for a group of pro-Nasir junior officers and Baathists. The brigade which Arif commanded prior to the 14 July coup has been sent south from Baghdad for piecemeal employment against the rebels, leaving Qasim's former brigade unchallenged in Baghdad.

Despite their factional differences, however, Iraqi army leaders continue to cooperate with the Egyptians in military planning to improve Iraq's defense against foreign intervention.

UAR

Recently announced plans to centralize in Cairo the planning, coordination, and execution of UAR policies probably presage a move to strengthen Nasir's control over Syrian affairs. Even the limited autonomy granted the Syrian region following union with Egypt last February allowed too much freedom

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to groups which resented Egyptian economic and political domination. Nasir presumably fears the natural attraction of Iraq for Syria and, in curbing the activities of Syrian politicians, will seek to prevent political cooperation between the two areas.

Saudi Arabia

Saudi Crown Prince Faysal has taken a noticeably harder line toward American policy interests in recent talks with Ambassador Heath. Faysal's frustrations with budgetary problems have led him to charge that the Arabian-American Oil Company (Aramco) is indifferent to Saudi financial difficulties. Faysal, apparently reflecting the influence of his pro-Egyptian petroleum adviser, hinted to Ambassador Heath that action to curtail Aramco's rights may be under consideration.

The ambassador also inferred that some recognition of the Soviet bloc is being considered. This would be in line with Faysal's intention to have a "neutral" foreign policy for Saudi Arabia. Closer Saudi relations with the UAR may be developed at the meeting of the Egyptian-dominated Arab League scheduled for 1 October in Cairo.

Kuwait

Kuwait, largest Middle East oil producer, also appears headed toward closer relations with Nasir. The deputy Kuwaiti ruler, Abdulla Mubarak, declared in Cairo on 24 September that Kuwait was prepared to join the Arab League and contribute to an Arab Development Bank. Such a bank would in effect be a device by which Kuwait and Saudi Arabia would contribute to UAR economic development. 25X1

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PART II**NOTES AND COMMENTS****CHINESE COMMUNIST MOBILIZATION CAMPAIGN**

Peiping claims that in less than three weeks the Chinese people have been "fully" mobilized, with every eligible person--perhaps as many as 150,000,000 of the total 650,000,000--"under arms." This mobilization, intended to demonstrate popular support for the regime's stand on the Taiwan issue, has stimulated the Chinese people's nationalism and has whipped up anti-American feeling, which the regime is channeling into stepped-up production efforts and support for its program for formation of "people's communes."

Peiping on 7 September began its campaign for the "mobilization" of the Chinese people against American "aggression" with a call for the "voluntary" enlistment of all between the ages of 17 and 40 in an "every-one-a-soldier" movement. The press and radio have since played up angry slogans, mottoes, and statements by individuals, and are proclaiming a popular desire to master military techniques in the "shortest time possible." Thus a truck driver pledges to "crush" the American aggressors under the wheels of his vehicle. Sea militia corps, comprising over 100,000 fishermen with their boats, have reportedly been organized to perform patrols, commando raids, and rescue missions.

Except in Fukien Province, where the militia may be assisting regular army troops in some guard duties, the real significance of the mobilization campaign lies in its propaganda aspect. The Chinese Communist Army is capable of handling most situations which might arise on the mainland and might even be hampered by the presence of amateur militiamen. Furthermore, American army officials in Hong Kong doubt that the Chinese have sufficient weapons to arm millions of recruits.

The mobilization campaign has given great impetus to the formation of "people's communes," in which the militia has both a real and a propaganda function. As originally planned early this spring, the militia was intended as an integral part of the communes, apparently to provide both greater discipline over the peasants and an organized labor pool more responsive to the demands of the commune leaders. This is still believed to be the militia's primary job, despite Peiping's assertions now that it is prepared to play a major role in national defense.

The regime will face a severe test in changing the lives of the peasants during the commune movement and will need the tighter internal security which a real militia force provides.

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CHINESE COMMUNIST MOVES AGAINST HONG KONG AND MACAO

Peiping is continuing its practice of asserting "Chinese rights" in Hong Kong. In the past two months the Chinese Communists have intensified

their complaints, protesting the expulsion of a Communist middle-school principal for unlawful political activities, the closing of a Communist-controlled

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school as structurally unsound, and alleged incursions into Communist air space. Peiping is harassing Hong Kong fishermen to force them to join mainland marketing cooperatives. The British note that the colony is being subjected to one of the heaviest propaganda barrages in years.

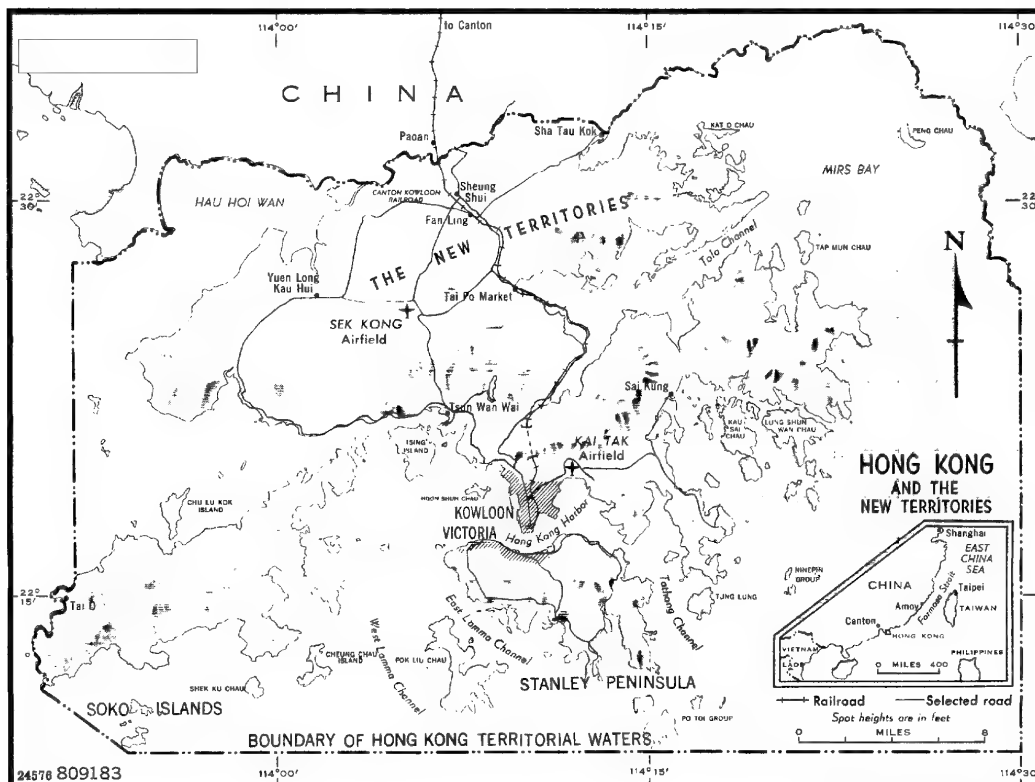
British authorities are rounding up suspected agitators in anticipation of riots between rival Chinese factions on 1 October, the Communist national holiday, or on 10 October, the Nationalist holiday. Hong Kong police probably could cope with any disturbances.

Macao also is under mounting Chinese Communist pressure, which the Portuguese authorities find difficult to resist. Although it rejected a recent Com-

munist request for the establishment of diplomatic relations with Peiping and the severance of those with Taipei, Portugal felt compelled to yield to Communist pressure to the extent of requesting Taipei to recall its commissioner in Macao at least until after the October holidays.

The British foresee serious difficulty in the Chinese Communist claim to a 12-mile territorial waters limit, which London rejected on 13 September.

Peiping's claim would place the entire western sea approach to Hong Kong in Chinese Communist waters and would narrow the eastern entrance to a width dangerous for rough weather transit and involving considerable detours. Some air approaches also would be over Communist waters.

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Naval incidents on 15 September indicated the Chinese intend to support their 12-mile claim. Two Communist vessels nearly ran aground two British motor launches, and another British ship was signaled by a Communist shore station to "leave Chinese territorial waters." Although the British

feel they cannot restrict their patrols without serious damage to their prestige, they nevertheless have instructed them to proceed as "unobtrusively as possible" in an attempt to avoid an exchange of fire with Communist vessels.

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CHINESE UN REPRESENTATION QUESTION

The moratorium on Chinese UN representation was adopted on 23 September with the solid support of the Latin American bloc and most of the Western and Asian nations allied with the United States in defense treaties. The vote shows, however, a loss of support from last year which may be critical for Nationalist China's opposition in the UN. Although Peiping's vote rose only from 27 to 28, Taipei for the first

time lost the support of Greece, Iceland, and Austria. Remarks during the discussion of the issue also suggest that any General Assembly consideration of the Taiwan Strait crisis would bring substantial support for Peiping's attendance as a party to the dispute.

Greece and Iceland, which have supported the United States on this question for the last seven years, abstained this year:

UN VOTE ON SEAT FOR COMMUNIST CHINA

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AGAINST - 44		IN FAVOR - 28	
Argentina	Jordan	Afghanistan	Iraq
Australia	Lebanon	Albania	Ireland
Belgium	Liberta	Bulgaria	Morocco
Bolivia	Luxembourg	Burma	Nepal
Brazil	Malaya	Byelorussia	Norway
Britain	Mexico	Cambodia	Poland
Canada	Nationalist China	Ceylon	Rumania
Chile	Netherlands	Czechoslovakia	Soviet Union
Colombia	New Zealand	Denmark	Sudan
Costa Rica	Nicaragua	Finland	Sweden
Cuba	Pakistan	Ghana	Ukraine
Dominican Republic	Panama	Hungary	United Arab Republic
Ecuador	Paraguay	India	Yemen
El Salvador	Peru	Indonesia	Yugoslavia
Ethiopia	Philippines	ABSTENTIONS - 9	
France	South Africa		
Guatemala	Spain		
Haiti	Thailand		
Honduras	Turkey		
Iran	United States		
Italy	Uruguay		
Japan	Venezuela	Austria	Libya
		Greece	Portugal
		Iceland	Saudi Arabia
		Israel	Tunisia
		Laos	

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another NATO country, Portugal, consistently abstains because of Macao. Athens' decision to abstain may have resulted largely from pressure by Krishna Menon of India. Foreign Minister Averoff has been quoted as saying that "the only delegation and person to whom Greece can turn for assistance on the Cyprus question is India and Menon." Iceland's abstention may be partially attributable to a desire to court Arab-Asian and Soviet bloc backing for its plan to ask the General Assembly to endorse the 12-mile territorial waters limit. In addition, Iceland may have been influenced by the other Nordic countries, which have long supported Peiping's entry into the UN.

Austria's abstention, however, is directly attributable to pressure from the USSR. The chief Austrian delegate told Ambassador Lodge on 23 September the USSR had urged Austria to

take a line more independent of the United States.

Libya, which supported the moratorium last year for the first time, abstained this year. This turnabout reflects Libya's present policy of abstaining when it cannot agree with the Arab majority, which in this case has been in favor of Peiping's entry for years.

Cambodia's recent recognition of Peiping and the change of government in Iraq resulted in both of these countries opposing the moratorium this year. However, Peiping had one less vote this year than it would have had because of the union of Syria and Egypt, which last year had two votes.

CYPRUS

Cyprus remains tense as the 1 October date for implementation of the British plan for limited communal self-government approaches. Ankara's decision to appoint the Turkish consul general in Nicosia as its first representative to Governor Foot is a conciliatory move which might prevent an immediate outbreak of new violence. Actual implementation of the plan could, however, lead to increased sabotage, cause the Greek Cypriots to engage in illegal demonstrations, and spark attacks by the Greek-Cypriot organization EOKA on British military and civilian leaders. While there is no evidence that EOKA intends to attack Turkish Cypriots at this time, armed attacks on Turkish-Cypriot police, which would prob-

ably occur during large-scale violence, could lead to renewed communal warfare and further embitter relations between Greece and Turkey.

Archbishop Makarios and the Greek Government are intensely opposed to the British plan, regarding it as a first step toward partition. Makarios proposes dropping the plan in favor of eventual independence for Cyprus, with both enosis--union of Greece with Cyprus--and partition precluded. The Makarios proposals were immediately attacked as "too conciliatory" by the intransigent wing of the Cypriot ethnarchy. Meanwhile, Makarios and Greek church leaders in Athens are applying pressure on the Karamanlis government to

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force it to abandon Greek ties with NATO if the British proceed with their plan.

Karamanlis says he has only two alternatives if the plan is implemented without modifications--to resign or to withdraw Greece from NATO. It is unlikely, however, that Karamanlis would resign, in view of the recently increased Communist vote in Greece and the danger that his resignation could lead either to further leftist gains or to a rightist dictatorship. On the other hand, Greece might progressively dissociate itself from NATO--while not actually withdrawing. It might also re-

call its ambassadors from London and Ankara.

NATO Secretary General Spaak and prominent members of the British Labor party are cautioning London to postpone implementation of its plan, in view of the anticipated effect in Cyprus and on NATO. Foreign Office spokesmen, however, insist that the version of their plan announced on 15 August will be implemented. In an effort to calm the Greeks, however, London may announce before 1 October an end to its ban on the return of Makarios to Cyprus.

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THE ALGERIAN REBEL REGIME

The proclamation by the Algerian National Liberation Front (FLN) on 19 September of a provisional regime was timed to offset the anticipated affirmative Algerian vote on the French constitutional referendum and to gain support of Algerian Moslems for the FLN's boycott of the vote to be held in Algeria from 26 through 28 September. Rebel spokesmen claim that "political workers" and the Army of Liberation inside Algeria demanded the government's formation to produce a psychological impact before the referendum. Continuing terrorist and guerrilla activities are also designed to disrupt the voting. Nevertheless, the French Army will make a maximum effort to get Moslems to the polls and ensure a large affirmative vote.

The new government is headed by moderate nationalist Ferhat Abbas, who joined the FLN in April 1956 and is considered to be a figurehead. The 16-member cabinet is almost evenly balanced between moder-

ates and extremists and between politicians and military figures. Although FLN spokesmen deny that a decision has been made regarding the seat of government, they do not rule out Cairo as a possibility.



ABBAS

The FLN claims it is dealing cautiously with the United Arab Republic and says the Algerian regime will not allow itself to come under the influence

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of any government. It apparently arranged [redacted]

[redacted] for Iraqi recognition to precede that of the UAR. Moreover, the Iraqi press reveals that Iraq has granted \$280,000 to the new government for victims of "French brutality." Tunisia, Morocco, and all members of the Arab League except Lebanon have recognized the regime, while Communist China on 22 September became the first non-Arab state to do so. An FLN leader has denied that the rebels desire to embarrass the United States on the question of recognition, but recognition has been formally requested.

France has warned that recognition of the Algerian regime would be considered an "extraordinarily unfriendly act," but a Foreign Ministry spokesman assured American officials there is "no question" of recalling French ambassadors from Tunis or Rabat. Paris, he said, would make every effort to ensure that Moroccan and Tunisian recognition would not result in such embarrassing "practical consequences" as an exchange of ambassadors or "official" acknowledgment of clandestine aid to the rebels.

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DE GAULLE AND ALGERIA

A trial of strength between Premier de Gaulle and the military and rightist elements demanding integration of Algeria with France may arise when he visits Algeria immediately after the constitutional referendum on 28 September. His recently publicized preference for a compromise solution may stem from a desire to reassure the Moslems that he holds to his June promise of reaching a settlement with the elected representatives of the whole Algerian community. He will probably try to avoid a showdown with resident and military leaders, at least until after the November parliamentary elections.

The French Army and settlers in Algeria have shown uneasiness over De Gaulle's offer of independence to the African territories and over statements by the Socialist and Radical parties in anticipation of a

liberal Algerian solution. They will probably be further perturbed by recent press reports that De Gaulle has characterized both integration and independence as "foolish" solutions. De Gaulle may have been led to indicate a preference for a moderate solution by the stepped-up terrorist campaign the Algerian nationalists have unleashed in France, climaxed by the assassination attempt against Information Minister Soustelle, and by the formation of an Algerian government-in-exile. He may feel he cannot afford to allow further deterioration in relations with the Moslems if his hope of negotiating with elected representatives of all Algerians is to be realized.

Army support will be necessary for De Gaulle to make any moderate solution prevail over the settlers, who profess to favor integration as a means

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of keeping Algeria French but are unwilling to accept political, social, and economic equality for the Moslems.

De Gaulle may be underestimating the extent to which he can induce the army and settlers in Algeria and their sympathizers in France to accept a solution which would not involve integration.

KHRUSHCHEV ATTACKS DE GAULLE GOVERNMENT

Khrushchev's sharp attack on the French Government in a Pravda interview broadcast on 21 September apparently stems from his displeasure over the recent meeting between French Premier de Gaulle and West German Chancellor Adenauer and may presage a stronger Soviet stand on the North African problem and possibly a shift in Moscow's attitude toward the De Gaulle government.

Soviet preoccupation with developments in French - West German relations is evident in Khrushchev's statement that a rapprochement between "French reactionaries and West German revengemongers" can only be a step toward war. The Soviet premier charged that French ruling circles are prepared to sacrifice the "higher national interests" of France "to assure for themselves the support of one of the most reactionary regimes in Europe." In another interview published on 23 September in the West German weekly *Die Zeit*, Khrushchev again warned against the establishment of a Bonn-Paris axis, comparing it with the prewar Berlin-Rome axis.

Moscow's relatively restrained and cautious attitude toward the De Gaulle government during its first four months in power reflected the Soviet leaders' hope that the French premier would pursue a nationalistic line which would weaken NATO and reverse the policy of close cooperation with West Germany. While its earlier expectations have been disappointed, Moscow is still apparently hesitating to take action which would preclude a future deal with De Gaulle. Although Khrushchev denounced the proposed new French constitution and several leading figures in the Paris government, he refrained from a personal attack on De Gaulle.

Khrushchev attacked De Gaulle's failure to end the "iniquitous colonial war against the Algerian people," but he avoided any indication that the USSR might recognize the Algerian rebel government proclaimed on 19 September. Communist China's recognition probably will be followed by public Soviet support which may lead eventually to formal recognition.

KHRUSHCHEV'S PROPOSALS ON EDUCATION

The proposals made by Khrushchev on 21 September in his memorandum on schools, if carried out in their present form,

would lead to fundamental changes in Soviet secondary education.

The proposals, already approved by the party presidium,

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will probably be considered next at a central committee plenum, then developed into theses for "nationwide discussion," and finally adopted by the Supreme Soviet and the union republics. Such a lengthy procedure suggests an attempt to gain public concurrence for an unpopular measure. The proposed system would probably limit the full-time education of the vast majority of Soviet youths to seven or eight years, although secondary education would be available for young workers in their spare time.

The memorandum notes that Soviet higher educational institutions can admit only 450,000 students each year. Khrushchev said that the majority of secondary-school graduates, nearly twice this number, not only fail the entrance examinations for universities and institutes, but at the same time "turn out to be untrained for practical life, do not know production," and consider farm and factory labor beneath them and "a kind of insult."

Khrushchev proposed that all children in the Soviet Union complete seven to eight years of school. The majority would then go directly into "socially useful labor at enterprises, collective farms, and other places of work." These young people could complete their secondary education at correspondence or evening schools or at part-time agricultural training centers.

It was also proposed that first- and second-year university students study only on a part-time basis while working a full day in industry or agriculture. In their third year they would study at the university three days a week and work

the other three days. In their fourth and fifth years their studies would be interrupted only by "production practice" in their specialties.

Khrushchev stressed that there would be "no exceptions" for children of high Soviet officials, but that children who at an early age demonstrated a special gift for science, mathematics, music, or visual arts would receive in the secondary schools full-time preparation for higher education. He recommended that during the projected three- to four-year transition period, some ten-year schools be preserved in order to maintain a regular flow of gifted students into the universities and institutes.

Khrushchev insisted the general educational level would not be lowered by his proposed changes, which he attempted to justify by stating that only 80 percent of the school children now complete the seven-year course. He also revealed for the first time that of the students in Moscow's higher educational institutions, only 30 to 40 percent are children of workers and collective farmers.

Khrushchev is also concerned over the annual increment to manpower, which is an important element in maintaining the high Soviet rate of industrial growth. The age group now leaving school is composed of children born during World War II, a period when the birth rate suffered a severe decline. Stating that "in the near future... we must send 2,000,000 to 3,500,000 adolescents" to work every year, Khrushchev instructed Gosplan to draw up a long-term plan for the employment of adolescents.

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MUKHITDINOV VISIT TO UAR

Nuritdin A. Mukhitdinov, a Soviet party secretary and presidium member, arrived in the United Arab Republic on 17 September for a ten-day visit and has conferred with top officials of both of its regions. The visit is being portrayed by Moscow and Cairo as a good-will tour stemming from Nasir's visit to the USSR in May, with official business limited to talks on the extension of Soviet-UAR cultural and economic ties. Mukhitdinov may, however, attempt to smooth out Soviet UAR policy differences involving the Middle East.

There is evidence that Nasir was dissatisfied with the equivocal promises of Soviet support he received after his hurried flight to Moscow following the Iraqi coup. Several points of friction remain, arising out of differences of approach by Moscow and Cairo on such issues as Iraq and the activities of local Communist par-

ties. Moscow's acquiescence to the dissolution of political parties in Syria at the time of the union with Egypt has not lessened efforts to build up Communist party strength throughout the Middle East.

Mukhitdinov has made a rapid rise to prominence under Khrushchev's tutelage and now apparently is responsible at the highest level for Soviet Middle Eastern policies. Although his government post is only that of chairman of the Foreign Affairs Committee of the USSR Council of Nationalities, Mukhitdinov has increasingly taken the public role of a top Soviet spokesman on Arab and Middle Eastern affairs. He traveled with Nasir on his 18-day tour of the USSR in May and is to accompany Marshal Voroshilov to Afghanistan in October. Mukhitdinov's UAR visit may serve as a prelude to a Khrushchev visit tentatively scheduled for this fall. 25X1

BLOC MOVES ON GERMAN UNITY PROBLEM

The Soviet and East German governments have moved during the last three weeks to undercut a West German initiative on the reunification problem which could have placed the bloc in a difficult propaganda position.

Anticipating a West German proposal for the establishment of a four-power commission to discuss the "German question," with top priority given the reunification issue, the East German regime on 4 September addressed notes to Bonn and the three Western powers calling for a four-power commission which would be limited to drafting a peace treaty for Germany. Moscow endorsed this proposal

in notes on 18 September to the two German governments, the United States, Britain, and France. The Soviet leaders thus hope to camouflage their intransigence on this question by making West Germany and its allies appear to reject an ostensibly constructive Communist initiative. 25X1

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The series of notes has stimulated renewed interest in the "German question" in West Germany on the eve of the new session of the Bundestag. While Chancellor Adenauer has dismissed the East German proposal as propaganda and has rejected the Soviet note, the idea of negotiating a peace treaty as a first step continues to attract support from West German opposition parties as well as from some government circles. The opposition can be expected to bring up in the Bundestag the issue of a four-power peace treaty commission.

By seizing the initiative on such a commission, Moscow hopes to divert attention from the Western formula for unification, which gives top priority to free elections, and to focus the debate on conclusion of a peace treaty as the first order of business. The Communist suggestion of a commission was calculated to impress the public with the existence of some kind of common ground on this problem. Moscow may also hope to show that the Western position on recognition of East Germany is a false barrier standing in the way of the West's accepting provisions of the East German notes.

Soviet leaders, however, have not deviated from the long-established Soviet position toward the German problem: that reunification is the exclusive responsibility of the two German states and that the role of the four powers is confined to drawing up a peace treaty in consultation with representatives of Bonn and Pankow.

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PORTUGUESE GOVERNMENT FACES FURTHER UNREST

The Salazar regime in Portugal, troubled by sporadic unrest since the presidential election last spring, is now concerned over the possibility of new disorders early in October. It is prepared to crack down on opposition activities, but is anxious lest public discontent be aggravated by any severe treatment of General Humberto Delgado, former presidential candidate and a persistent critic of the government.

Delgado intends to address a big rally in Oporto on 5 October, the anniversary of the republic. The government feels

obliged to arrest him if he makes political attacks on that occasion, but fears making him a martyr and running the risk of riots like those in Oporto in mid-May. In their efforts to avoid such a contingency, the authorities are now seeking to get him out of the country or installed in a new "safe" post at home.

The regime is seriously concerned over the effective organization evidenced by new opposition groups in which Communist influence has increased since June. It fears Communist use of these groups to create

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incidents--a technique well demonstrated during the election campaign last May. Delgado has told the defense minister that he has probably been exploited by the Communists, who supported him in the election campaign and penetrated his organization, but has apparently taken no steps to disown the party.

Government attempts to combat unrest seem to have been confined thus far to police action against the opposition and efforts to remove dissension within the regime itself. Delgado's public protests against the arrest and mistreatment of some of his election backers have, for example, been stigmatized by the regime as subversive. Salazar's reshuffle of the cabinet in mid-August appears to have been designed more to reduce friction between its military and civilian components than to pave the way for political and socio-economic reforms. The government has

made no move to meet the demands which Delgado has been pressing--the removal of restrictions on personal freedom, increasing economic pro-



duction, and effecting a more equitable distribution of wealth. Until it does, it may find the preservation of public order increasingly difficult.

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STRAINS WITHIN THE WEST INDIES FEDERATION

Antagonism and rivalry among West Indian political leaders are accentuating weaknesses within the West Indies Federation inaugurated by Britain early this year. The possibility of the secession of Jamaica, the most important political and economic unit in the federation, is being discussed by some political and economic leaders there as well as by the local press.

Both Jamaican political parties now question whether

Jamaica should remain in the federation. Antifederation sentiment stems largely from economic factors. Commercial interests, for example, are apprehensive about the proposed customs union and fear the effects of interisland free trade on protected Jamaican industries such as cement and textiles.

Growing political differences, many personal, are underlining the Jamaican problem. Leaders of the island's two political parties resent what

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they consider the "empire-building" tendencies of federal ministers, that is, their efforts to augment the federal government's few powers. Even Jamaican Chief Minister Norman Manley, who heads the majority federal party, has joined the critics of federation--probably in part out of personal rivalry with the federation's prime minister, Sir Grantley Adams.

Jamaican public hostility has been aggravated by the recent aggressive attacks on Jamaica's policies by Eric Williams, the anti-American and ardent profederalist chief minister of Trinidad, the federation's second most important member. Jamaicans believe Williams is determined to become the leader of the federal government while "forcing" Jamaica to play a subordinate

role or to secede. Williams' previous issue, the demand for the United States base at Chaguaramas, Trinidad, as the capital for the federation, has faded out since the joint US-UK-West Indies commission's recommendation against complying.

While alienating the Jamaicans, Williams continues his efforts to gain British Guiana's early entry into the federation. He has received support only from the opposition party in British Guiana, while Cheddi Jagan, Communist leader of the majority party there, continues to rebuff these efforts. Jagan maintains that before the colony joins the federation, British Guiana must gain complete internal self-government and the federation obtain independence within the Commonwealth.

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MANEUVERING FOR THE VENEZUELAN PRESIDENCY

The Venezuelan parties have failed thus far to agree on a joint presidential candidate for the scheduled 30 November elections--the major initial step in carrying out their "truce and unity" program designed to guard against a return to military rule. This has led to a rise in political tensions, while rumors of another military plot and of another civilian general strike contribute to the uncertain outlook.

In the latest attempt to reach multiparty agreement on the elections, the Democratic Republican Union (URD), probably the third largest party, recently put forward junta President Admiral Larrazabal as the joint presidential candidate. The proposal apparently faces opposition from the Democratic Action (AD), the largest party, and the Christian democratic COPEI, probably the second strongest party. COPEI, which objects to a military candidate, and AD, which has a strong pro-Larrazabal minority faction, reportedly may join to back COPEI chief Rafael Caldera, who is believed to be the party leader most acceptable to the military and the other parties.

Larrazabal, probably the most popular figure in Venezuela, may resign from the junta shortly to launch his candidacy as an "independent" in a move which could split the parties

and undermine the unity program unless all major groups endorse him.

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At present he has the support of the navy, commanded by his brother, and could probably win the Communist vote and a considerable portion of the AD's, along with a large part of the unorganized vote, which constitutes most of the Venezuelan electorate.

Larrazabal has removed a number of key ground force officers believed opposed to his presidential ambitions.

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Meanwhile, there is reported civilian pressure for calling a general strike to demand the wholesale removal of officers suspected of plotting against the regime. Should such a strike take place, it might unite the now leaderless armed forces and touch off serious violence, particularly since many civilians possess arms.

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THE BRAZILIAN CONGRESSIONAL ELECTIONS

In the Brazilian congressional and gubernatorial elections to be held on 3 October, President Kubitschek's middle-of-the-road Social Democratic party (PSD) will probably sustain substantial losses. Gains

will be made principally by the so-called "populist" parties, particularly Vice President Goulart's left-wing Labor party. The campaign has been marked by the usual maneuvering by candidates, and seemingly

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contradictory party alliances, which may make it difficult for the PSD to maintain a workable congressional coalition.

A new electoral law which takes effect this year places the PSD at a disadvantage by giving added weight to the urban vote, on which the "populist" parties' strength is based. While the populists have generally supported Kubitschek in the past congress, their cooperation will be increasingly in question, since three of their national leaders are strong contenders to capture the presidency from the PSD in 1960. A gain for the Labor party in particular would probably mean stepped-up nationalist agitation and increased difficulties for Kubitschek's financial stabilization measures.

The prospects for the illegal Communist party are mixed. Although split on both ideological and tactical grounds, it will probably see a number of members and sympathizers elect-

ed on the tickets of other parties, as has been the case in the past. The Communists are campaigning openly for selected candidates in each major party, but with particular emphasis on the Labor party and almost none on the PSD. Recent government and church attacks on Communist political activity are apparently based only partly on these alliances, however. With Communist chief Prestes at liberty for the first time in 11 years and purveying the party's new "soft" line--a combination of bourgeois and nationalist sentiments--the Communists have clearly been attempting to rebuild past congressional sentiment for legalizing the party.

By placing new restrictions on Prestes' political activity and sponsoring radiobroadcasts condemning the party as a tool of Moscow, the government probably hopes not only to make the Communist cause unpopular in congress but to deal a blow to the growing number of fellow-travel-^{25X1} ing nationalists both in and out of congress.

SOVIET-JAPANESE TRADE

Trade between Japan and the USSR during 1958 is expected to reach approximately \$45,000,000--less than the target stipulated in the trade agreement of last December, but more than double the 1957 total. Relaxation of COCOM controls and indications that the USSR may make additional commodities available to Japan are likely to lead to a further growth in trade between the countries. In some instances this could result in a reduction of Japanese imports from the United States and other free-world countries.

Tokyo hopes to export products this year valued at \$25,-

000,000 and anticipates imports of \$20,000,000. The USSR, however, consistently has maintained the trade balance in its favor and is insisting that Japan accelerate its importation of Soviet goods.

Japan now is accepting Soviet orders for small ships, rolling stock, chemical fibers, and industrial equipment to add to normal exports of light industrial goods. In return, Japan has been buying larger amounts of Sakhalin coking coal, lumber, and metallic ores. Moscow also is offering to supply new items--wheat, crude oil, tin, soybeans, and coal from the

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Kuznetsk region, although it apparently has only limited amounts of such commodities available for export. The Japanese Government is considering a trial import of semihard wheat and may feel under compulsion to accept some other Soviet commodities, despite their relatively high price, for the sake of expanding exports to the USSR.

The recent opening of shipping services between Japan and Soviet ports in Siberia and on the Black Sea should assist trade; two Japanese economic

JAPANESE TRADE WITH USSR

	EXPORTS	IMPORTS	TOTAL	PERCENT OF TOTAL TRADE
1953	\$ 7,400	\$ 2,126,000	\$ 2,133,000	.06
1954	39,000	2,250,000	2,289,000	.06
1955	2,076,000	3,054,000	5,130,000	.11
1956	760,000	2,870,000	3,630,000	.06
1957	9,300,000	12,300,000	21,600,000	.29
1958 (JAN-AUG)	20,000,000	17,000,000	37,000,000	.45

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missions are either in the USSR or en route there to investigate trade possibilities. During trade negotiations opening in Moscow in late October, Japan intends to propose a 60-percent increase in planned 1959 trade. (Continued in by ORR)

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NORTH KOREA PLANS BIG ECONOMIC EXPANSION

North Korean Premier Kim Il-sung, in a recent speech marking the tenth anniversary of his regime, outlined greatly expanded goals for the economy and said the First Five-Year Plan (1957-61) would be fulfilled 12 to 18 months ahead of schedule. In what appears to be a junior version of Peiping's "giant leap forward," Pyongyang has set goals for "six or seven" years from now that are at least double the ambitious Five-Year Plan targets for many basic industrial goods.

Much of the speech was devoted to comparing what Kim sees as the sorry economic plight of South Koreans with the abundant life of North Koreans, who are "rushing toward socialism like a flying horse." He emphatically stated that economic exchange could be the most important single means for unifying Korea, and the tone of his speech suggests that Pyongyang is attempting to make an

issue of the competition in economic development between North and South Korea. Although Kim Il-sung's appraisal of South Korea's economy, which he claims is on the verge of bankruptcy, is extremely biased, Pyongyang's leaders may actually believe they can attain a sufficiently high level of production to attract real support in the South.

Kim emphasized that heavy industry would continue to get priority. He took considerable pains to justify the "correctness" of this policy, and his defensive tone indicates that the struggle over this issue which admittedly took place in 1956 has not been forgotten. He also said that within six or seven years North Korea would become a completely self-sufficient "industrial-agricultural" nation. The metallurgical, machine-building, power, coal, chemical, and building-material industries

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NORTH KOREAN ECONOMIC GOALS

(METRIC TONS EXCEPT WHERE NOTED)

	1957 PRODUCTION	FIRST 5-YEAR PLAN GOALS (1957-1961)	1964-1965 GOALS
PIG AND GRANULATED IRON	330,000	700,000	4,000,000
STEEL	277,000	670,000	3-3,500,000
ELECTRIC POWER (BILLION KWH)	6.9	9.7	20.0
COAL	5,000,000	9,500,000	25,000,000
CHEMICAL FERTILIZER	327,000	630,000	1.5-2,000,000
CEMENT	895,000	1,750,000	5,000,000
FISH	564,000	620,000	1,000,000
GRAIN	3,200,000	3,760,000	7,000,000

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will be developed "ahead of the others."

The speech hinted at a measure of decentralized control with respect to light industry. Food-processing and other light industries are to be developed by building small, locally run factories in every county, so that by 1959 production from this type of enterprise will equal the total out-

put of enterprises still under the Ministry of Light Industry. As the local industries develop and expand, so too will the "local organs of power."

Grain production is scheduled to reach 7,000,000 tons, including 4,000,000 tons of rice, by 1964 or 1965--almost double the Five-Year Plan goals. More irrigation and increased application of chemi-

cal fertilizer will be the principal means of achieving this goal.

The announcement of these greatly expanded targets, which directly follows the month-long visit to China of the North Korean state planning chairman, may indicate that Pyongyang has been able to negotiate additional economic assistance.

(Prepared by ORR)

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PART III

PATTERNS AND PERSPECTIVES

SOVIET CULTURAL DIPLOMACY

Since Stalin's death in 1953, the USSR has placed increasing emphasis on its economic and cultural relations with other nations. Soviet leaders apparently hoped this more liberal approach would not only appear responsive to the Soviet people's desire for greater freedom and contact with the West, but would also enhance the USSR's prestige and influence, especially in underdeveloped nations, thereby supporting the broader objectives of Soviet foreign policy.

Moscow's cultural offensive has consisted of encouraging visits by foreign heads of state and selected groups--scientists, artists, students, tourists--and showing them only the best the Soviet Union has to offer. It has likewise made wide use of the press, films, and radio for this purpose. While the Soviet leaders have exchanged with free-world countries carefully selected representatives of a wide variety of professions and activities, Moscow has consistently sought to shield the general Soviet public from contact with Western ideas and institutions and to prevent any comparison with reality of the image of the West as built up in Soviet propaganda.

Growth of Exchange Program

Soviet cultural and scientific exchanges, virtually nonexistent in 1950, have steadily increased since Stalin's death. The widespread cancellations by free-world governments after the Soviet intervention in Hungary were followed by an all-out Soviet campaign to restore contacts. The number of delegations exchanged with the free world in 1957 increased 30 percent over 1956, and exchanges with the free world during the

first half of 1958 more than doubled over a comparable period in 1957.

The Soviet Union has recently made determined efforts to increase the number of formal exchange agreements with the free world, and it now claims to have over 90. The US-USSR agreement signed last January, the most comprehensive thus far, provides for a fivefold increase in the number of officially sponsored exchanges in the next two years. The USSR has pointed to this in negotiations with Britain, West Germany, and Turkey in an attempt to break down opposition of these governments to concluding similar agreements. In the six months since the accord went into effect, exchanges between the United States and the Soviet Union have risen by over 65 percent, and privately initiated exchanges have been greatly stimulated.

There has been a noticeable emphasis on scientific, technical, and professional delegations--most years they have accounted for over half of all Soviet exchanges--demonstrating the Soviet leaders' desire both to impress the world with the USSR's stature in the scientific world and to foster exchanges which will pay off in higher Soviet production and greater technical advances. The number of sports and cultural exchanges is also growing. The great increase in trade delegations over the past six months reflects the present Soviet trade offensive.

The majority of exchanges with the free world have been and still are with the United States and the countries of Western Europe. Nevertheless the USSR, in conjunction with its efforts in the economic and

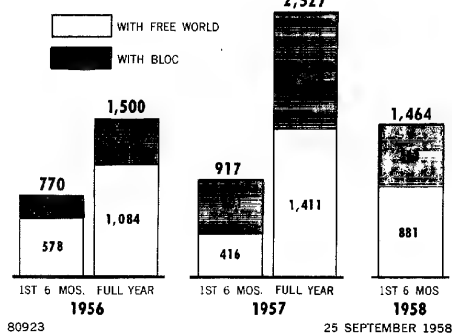
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diplomatic fields to exploit the ascendant forces of nationalism, anticolonialism, and social unrest, for over a year has placed particular emphasis on developing further cultural contacts with the underdeveloped nations of Asia, Africa, and Latin America. Expanded contacts with these nations accounted for most of the 1957 increase. Since the inception of the exchange program, moreover, Soviet propaganda has given far greater publicity to contacts with underdeveloped areas than to those with the more advanced nations.

SOVIET EXCHANGE PROGRAM
(NUMBER OF DELEGATIONS EXCHANGED)

**Organization of Exchanges**

Two organizations divide the responsibility for handling official and unofficial Soviet exchange groups. The State Committee for Cultural Relations with Foreign Countries was set up in May 1957 under the Council of Ministers to coordinate official cultural exchanges. Last February the Union of Soviet Societies for Friendship and Cultural Relations with Foreign Countries was created to handle unofficial exchanges.

The transfer to the latter of the apparatus and functions of the All-Union Society for Cultural Relations with Foreign Countries (VOKS) demonstrates the increased emphasis the USSR is giving to cultural relations. Since 1925 VOKS had been the

principal body through which the USSR had conducted its external cultural relations, but its effectiveness had been impaired by too close association with the party and government. Soviet propaganda has therefore stressed the spontaneous popular origin of the new union and the voluntary association in it of the 19 newly formed counterpart friendship societies.

VOKS had maintained a close liaison with Soviet friendship societies abroad which, under a thin disguise of nonpolitical respectability, acted as the effective agents of Soviet cultural and political propaganda. The patently fellow-traveling complexion of these societies and the consequent refusal of most Western governments and official bodies to have anything to do with them reduced their usefulness and that of VOKS to the Soviet Government. The new union, however, although obviously under tight party control, has encouraged the formation of more representative and apparently less partisan societies abroad.

Exchange of Delegations

The USSR in its emphasis on scientific and technical exchanges now sponsors important scientific conferences, and Soviet physicists, chemists, physicians, and engineers attend all important international conferences and, on invitation, tour Western scientific institutions.

The Soviet Union recognizes the value of increased cultural and sports contacts as an opening wedge to future exchanges. Moscow has usually seen that only top-ranking artists represent the USSR in the West, reserving others for less discriminating audiences in Asia and Africa.

The Sixth World Youth Festival in the summer of 1957

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brought 34,000 young people from 131 countries to the Soviet Union, according to Soviet figures. Apparently to convince the visitors that the iron curtain was a "myth," unprecedented freedoms were permitted during the festival.

Although students from outside the bloc account for only about 3 percent of the nearly 15,000 foreign students studying in the USSR, the number from underdeveloped nations is steadily growing. Moscow has offered many more scholarships than these countries have accepted. Every effort is made to recruit politically active students from the colonial areas in anticipation of their future usefulness to Moscow as leaders in their own countries.

The number of Soviet students who have studied in the West for a year or more since World War II is still infinitesimal, and the scheduled exchange of 20 students this fall under the US-USSR agreement involves the largest group of Soviet students ever to study in a free-world country. Afraid of exposing its youth too long to Western freedoms, the USSR has favored short-term exchanges of student groups with the free world.

Tourism has been encouraged by bringing the costs down--through rebates, special group rates, and an adjusted ruble exchange rate for noncommercial transactions--to correspond more closely to the price of comparable tours in the West. The Soviet agency Intourist now offers a choice of more than 40 guided tours, and travel by automobile became possible in 1957 for the first time since the war. However, to make certain the tourist receives only the desired impression, as well as to observe security precautions, routes are carefully defined and travelers are invariably accompanied by an Intourist guide

and interpreter. Some 40,000 bona fide tourists are believed to have visited the Soviet Union in 1957. By contrast, only about 10,000 Soviet tourists visited the free world in 1957, although this figure is expected to triple by the end of this year.

Press, Radio, and Films

The USSR has contributed heavily to book fairs and exchanged books with libraries the world over. Its invasion of the Indian book and periodical market is an example of the extent to which Soviet efforts have gone in this line. By asking prices far below cost for excellent editions in both English and the regional languages and by giving liberal terms, the USSR has presented impossible competition to Indian publishers and importers of Western publications. Figures on the amounts spent annually in subsidization of foreign Communist party publications and on brochures and articles reprinted in the foreign press are extremely high.

Foreign books translated and published in the Soviet Union are carefully chosen and, although many foreign classics, novels, and books on folklore are reprinted, the emphasis continues to be on scientific and technical works, especially American. The USSR, having never signed the international copyright convention, rarely pays royalties to authors abroad. Adlai Stevenson, who conferred with the Russians on this question on his recent trip to the USSR, was given little encouragement by the authorities.

Distribution of the magazine Amerika since the first issue appeared in October 1956 has been hamstrung by the Soviet state distribution monopoly. Month after month thousands of copies, never offered for sale in the provinces, have been returned to Moscow as "unsalable."

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The United States, however, sends to libraries throughout the Soviet Union most of the 2,000 complimentary copies it is allowed to distribute, and the magazine's effectiveness can be seen by the frequent attacks on it by the Soviet press and radio.

Moscow broadcasts in 45 foreign languages and dialects. As of last April the USSR devoted more than 700 hours per week of non-Russian-language broadcasts to free-world countries--300 to Asia, the Middle East, Africa, and Latin America, and the rest to North America and Western Europe. Its concentration on underdeveloped areas and uncommitted nations is again shown by the steady increase in broadcasting to Southeast Asia, the Middle East, and Africa.

The Soviet Union's efforts in the motion-picture field take a variety of forms: production of cultural films and documentaries illustrating Soviet achievements, use of costly promotional devices, participation in film festivals, offering of films abroad at prices far below cost, and payment of high prices for mediocre films

from small film-producing countries. Americans attempting to negotiate film exchanges with Moscow have observed that, in accepting films for showing in the USSR, Soviet officials prefer westerns, frivolous comedies, and starkly realistic dramas--those which best reinforce the image built up in the minds of the Soviet people of a decadent America totally lacking in culture.

The Russians seem to be eager--as in all fields--to learn American methods in motion pictures, radio, and television, but are reluctant to make any agreement which might restrict their policy of censorship within the USSR. The projected exchange of radio, television, and motion-picture material under the recent US-USSR agreement is still subject to negotiation.

There is increasing emphasis in the Soviet Union on the study of languages, especially those of Asia and Africa, and Soviet diplomats, technical advisers, and teachers are being equipped to convey the Soviet message to the people of these countries in their native tongues. 25X1

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KHRUSHCHEV'S AGRICULTURAL POLICY SINCE 1953

Soviet Premier Khrushchev, in a speech last July at the Polish Embassy in Moscow, spoke ebulliently of conditions favoring Soviet industry and agriculture. The tone of his remarks contrasted sharply with that of his September 1953 report on agriculture, in which he complained bitterly about the state of agriculture as Stalin left it. Many far-reaching changes benefiting agricul-

tural output have been made since 1953, and Khrushchev has been intimately associated with all of them. His policies made possible a record harvest in 1956, and this year's output may again reach an all-time high. Exceptionally favorable weather has contributed and is contributing greatly to these records. By contrast, agricultural output in 1957 fell below 1956, almost entirely because of less favorable weather.

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Increased Incentives

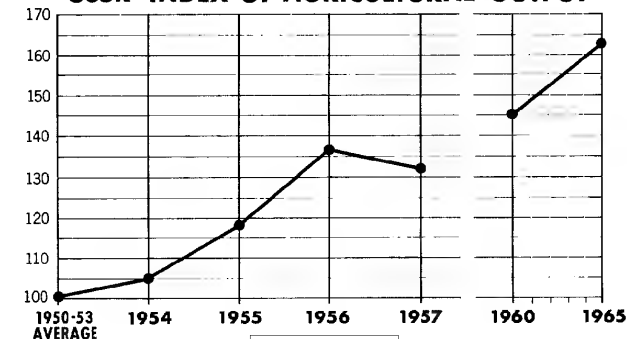
Stalin's policy of coercion to expand production has been largely replaced by a system based on economic incentives. Increases in prices paid for produce, along with tax reductions, have augmented peasant income.

While Khrushchev has continued Stalin's practice of giving priority to industry, he has placed increasing emphasis on agricultural expansion. In the last several years, there has been a substantial growth in capital investment in agriculture, and the long-term trend toward a smaller agricultural labor force has been halted. Thus the importance of agriculture as a competitor for resources has increased.

Organizational Changes

Probably the most important organizational change in Soviet socialized agriculture since its establishment in the 1930's was the machine-tractor station (MTS) reorganization

and supply depots. The MTS formerly had a near monopoly on the machinery used by the collective and was the focus of local political control over the collective farms.

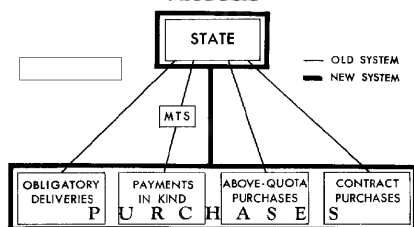
USSR: INDEX OF AGRICULTURAL OUTPUT

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In another innovation, stemming from the MTS reorganization, the party central committee on 18 June decided to discard the long-established multiple-price system of procuring agricultural products from collective farms in favor of a simpler system. Instead of compulsory deliveries, payments in kind for MTS services, and above-quota purchases, the state will purchase produce at single prices, beginning with the 1958 crop. In commenting on the general level of the new prices, Khrushchev implied that the amounts to be paid to the collective farms will approximate funds previously paid them plus funds allocated to the MTS's. Live-stock prices appear to be considerably higher than previous average prices.

USSR: PROCUREMENT OF COLLECTIVE - FARM PRODUCTS

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instituted by Khrushchev this year. The collective farms now can buy and operate their own machinery, while the MTS's are being transformed into repair

The importance of the completely socialized state farm sector has increased significantly. The area sown by state farms rose in 1957 to more than 25 percent of the total sown area for the country, in contrast to 12 percent in 1953. The rapid increase in the relative importance of state farms results primarily from the

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new lands program, in which state farms play a big role. In recent years, moreover, some collective farms have been transformed into state farms.

Production Programs

More than 85,000,000 acres have been brought into cultivation under the new lands program, raising sown acreage by about one quarter. Although national grain harvests will henceforth be higher, grain from the new lands will probably be more costly than that from the traditional grain areas.

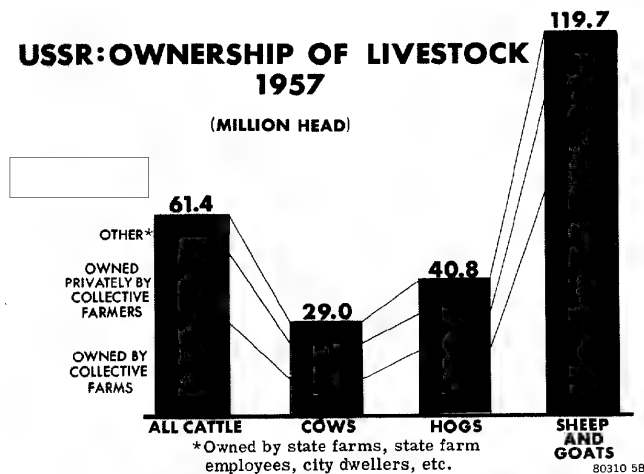
In January 1955 Khrushchev announced a program for in-

mitigate against production on 70,000,000 acres over a long period. In 1958 nearly 50,000,000 acres were sown in corn.

Khrushchev's program launched in May 1957 to catch up with the United States in per capita production of meat, milk, and butter in the next few years has received tremendous publicity. Khrushchev berated his economists for being too conservative in their analysis of livestock potentialities and criticized the scientists in the experimental stations for underestimating the value of corn. The livestock program is probably the most unrealistic of all of Khrushchev's farm programs. With the program as now constituted, the goals cannot be achieved, and meat production especially will fall far short of the 1960-62 goal.

USSR: OWNERSHIP OF LIVESTOCK 1957

(MILLION HEAD)



creasing the corn acreage by 1960 from about 10,000,000 to 70,000,000 acres--an area almost as large as that seeded to corn in the United States. This program was conceived in the hope of obtaining large supplies of feed as a basis for expanding the livestock industry. Although basing his corn program on the American model, Khrushchev apparently disregarded the fact that there is no large area in the USSR as suitable as the corn belt in the United States. Restrictions of soil and climate will make corn farming relatively expensive and

The USSR will be able to increase the output of livestock products substantially in the next several years, however, and Khrushchev may conveniently overlook his earlier promises. In April 1958, for the first time, he qualified his promise to catch up with the United States in live-

stock products by making it contingent on solution of the fodder problem.

The new lands expansion, the corn program, and the program for catching up with the US in per capita meat and milk production have points of similarity. All should yield some benefit, but none is likely to be nearly as successful as Soviet leaders claim to expect. All are relatively expensive, and all show evidence of inadequate planning, especially in their initial stages, with the result that progress

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has been by fits and starts. Central direction has been another of their characteristics, with relatively little left either to local initiative or to the "experts" who would be best qualified to plan programs of this nature. All have been put into effect with a speed that would be impossible if much decentralization actually existed.

Prospects

The average caloric intake of Soviet citizens, despite their increasing numbers, will continue to be adequate, and there will probably be moderate improvement in the composition of the diet. The USSR will be capable of exporting more agricultural commodities than in the past and of absorbing significant amounts of the agricultural exports of various underdeveloped countries. The extent of both the imports and exports will probably be determined largely by political considerations.

Under present programs, the growth of agricultural output will be slower than in the period since Stalin, because the stimulus of the new lands and corn programs will already have been largely dissipated. If Khrushchev cannot be satisfied with a rate of growth far less than that which he boastfully promised, he will probably initiate still more changes. The USSR's inefficient use of agricultural labor is another reason for future moves by Khrushchev. Industry's needs, together with a decrease in the rate of growth of the labor force, will create pressure to release manpower from agriculture.

Agricultural problems will probably receive much attention at the forthcoming 21st party congress in January and at the scheduled All-Union Congress of Collective Farmers in early 1959. Some lines of action

which may be taken are suggested by recent developments and press discussions.

As a result of the MTS reorganization and the new single-price procurement system, Moscow may feel it necessary to establish at the collective farmers' congress a new collective farm model charter to replace the one established in 1935. In this event, a collective farm will probably emerge which more closely resembles a state farm or factory.

Khrushchev's favorite farm in his native village of Kalinovka has recently purchased all the privately owned livestock of its members. While Khrushchev has warned against a too rapid extension of this procedure, this innovation may be sanctioned at the collective farmers' congress and become a rapidly spreading movement. Khrushchev may view such a move as important in his attempt to catch up with the United States in per capita meat production.

There has been considerable discussion about and experimenting with the practice of paying collective farm workers entirely, or almost entirely, in cash and including a minimum wage system. If this were done widely, it would further reduce the differences between collective farmers and industrial workers.

Establishment of a collective farmers' union has been discussed in the Soviet press. Apparently the contemplated "union" is an organization of farms rather than of farmers. The "union" has been suggested as an organization to compel the economically stronger farms to help the weaker. This would speed the process of disbanding those MTS's which are being retained because backward collectives cannot now purchase the machinery, and would also further the trend of reducing income disparities, a principle already being applied both in industry and agriculture.

(Prepared by ORR)

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INDONESIA: PRESIDENT SUKARNO, THE ARMY, AND THE COMMUNIST PARTY

With the decline of non-Communist parties in Indonesia during the past 18 months, the three centers of power in the country are, in order of importance, President Sukarno, the army, and the Communist party. Although the army's political strength is increasing, Sukarno's lead in authority and prestige remains large. The Communists, although expanding their following at the grass-roots level and benefiting from their association with Sukarno's policies, are being obstructed in the use of their strength by army tactics.

President Sukarno

Sukarno remains the key to all significant government activity in Indonesia. Although his prestige and area of maneu-



SUKARNO

verability have diminished, any policy to be successful must have his support. His principal source of power and prestige is support of the masses, particularly in Java where over 60 percent of Indonesia's 82,000,000 people live.

In early 1957 Sukarno announced a program of "guided democracy" which called for a de-emphasis of political parties and parliamentary government. Indonesia had been independent for seven years, had averaged a new cabinet every year, and had made little economic progress. The 1955 national elections, which had been expected to provide a cure-all for the country's problems, had only created a coalition government of eight parties whose inexperience and rivalry made for continued indecisive and inefficient government.

Sukarno had just completed tours in both the West and the Sino-Soviet bloc. He felt he had seen in Communist China such tremendous economic advances that Chinese methods held lessons for Indonesia. Sukarno has repeatedly stated that he is a Marxist but not a Communist. He appears to believe he can establish a socialist state and can use Communist techniques without threatening Indonesia with Communism.

Sukarno encountered expected opposition from the non-Communist political parties. He had the support of the army, however, and the vigorous assistance of the Communist party and other leftist elements.

With this support, he was able to form in April 1957, without consulting political parties, the present extraparliamentary business cabinet, led by a non-party prime minister, Dr. Djuanda. In June 1957 he installed an extraconstitutional national council under his own chairmanship, and he has recently named a preparatory council to formulate a national economic planning board.

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In the interim, however, he appears gradually to have become aware of the increasing Communist strength which his own policies have permitted. He has therefore apparently welcomed army measures which began about December 1957 to obstruct the growth of Communist influence.

Sukarno has not personally challenged the Communist party and probably will not for two reasons: he wishes to retain its support; and a challenge to the party, whose chief support--like his own--comes from Java, would force the Javanese masses to choose between him and the Communists. He fears the results of such a choice since it would not only whittle away his own source of power but at the same time would set up a powerful antagonist.

The Army

The Indonesian Army has assumed an increasingly powerful position, including a growing policy-making role, since the beginning of conflict with the rebellious provinces in Sumatra and North Celebes last March. This period has coincided with restrictive moves against the Communists. The army's increased power has resulted from three factors: the considerable authority permitted the army under the present "state of war"; the support of Sukarno; and the prestige accruing from its success in suppressing the revolt.

Chief of Staff Nasution and other army leaders, although sharing Sukarno's desire for national stability and progress and his exasperation with the ineffectiveness of political parties, differ with him over his willingness to rely on the Communist party. Nasution has

said the army's task is to steer a middle-of-the-road course, preventing a move either to Communism or to a Moslem state.

Nasution subordinated anti-Communist action for the first two years of his tenure, which began in October 1955, in the interests of building a disciplined army. His first significant move against the Communists was in December 1957, when Sukarno instituted a campaign to take over Dutch interests in Indonesia and the Communists seized the opportunity to force a far more extensive take-over than most government elements



NASUTION

had anticipated. When the army moved to control those interests seized by Communist-influenced groups, Sukarno did not interfere and apparently supported the move.

Army leaders are aware that the rebellion has provided the Communist party with new opportunities for growth. Nasution has therefore banned political activity in all areas except Borneo and Java, taken steps to prevent leftist-inspired demonstrations, and thus far forestalled Communist-inspired

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strikes and boycotts by decreeing that the army "cannot approve" actions which would disturb the public order. A few pro-Communist army officers have been transferred from positions of influence. The army also pressed--although with only moderate success--for a cabinet reshuffle last June to reduce leftist influence. Nasution persisted and succeeded in acquiring American arms which, although purchased only in token quantities, balanced to some extent large military purchases from the Communist bloc.

National elections, which had been scheduled for September 1959 and in which significant Communist gains were anticipated, have now been postponed a year.

Army factionalism is on the decrease, although a renewal, growing from the rebellion and aggravated regional prejudices, can be expected as soon as disaffected units are restored to the army roster. Those elements which formerly constituted the most effective opposition to Nasution and his followers are with the dissidents in Sumatra and North Celebes, so that the present officer corps is relatively disciplined. Nasution's chief threat is Sukarno, himself, who may come to fear the chief of staff as a serious rival and arrange his removal. This does not yet appear likely.

Communist infiltration of the army is heaviest in the enlisted ranks. 25X1

In the officers corps, where Communist sympathy appears limited, 25X1 the Communists rely on using persons of extreme pro-Sukarno sentiment.

Enlisted men are poorly paid and frequently have substandard living conditions. Both the Communists and army factional leaders have exploited their discontent.

The Communist Party

The Indonesian Communist party (PKI) has risen rapidly from a third-rate party in 1952 to the largest in Java in 1957, in great part by following national-front tactics which have included support for Sukarno and identification with his policies.

The PKI is better organized and has worked harder than any non-Communist party. Under Secretary General D. N. Aidit, the party's membership is believed to be at least 700,000 and may approach claimed membership of over a million. The party won

None of the army moves already taken against the Communists constitutes major opposition. Generally they have been minor moves of containment or obstruction. Army leaders, although willing to go further than Sukarno, fear Communist power and hesitate to challenge it before first strengthening their own position with the Indonesian people and stabilizing the country generally.

In addition to the major problems of Sukarno and the Communists, the army has internal difficulties of factionalism, Communist infiltration, and lower rank discontent which weaken the position of army leaders.

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7,000,000 votes--25.6 percent of the total--in the 1957 Javanese provincial elections, and made gains in limited local elections elsewhere in Indonesia. It has made vigorous preparations for the now postponed national elections, while non-Communist parties have been virtually inactive. The Communists' strongest front group is SOBSI, Indonesia's largest and most effective labor federation. Communists also control the largest veterans' organization, PERBESPI, and the largest peasant organization, BTI.

The party strongly supported military measures against



the provincial dissidents and has shared in the prestige accruing from their defeat. Restrictive army measures, however, have prevented the considerable exploitation of this development which the Communists had obviously planned.

Communist leaders are reported disturbed over increased army power and the apparent acquiescence of President Sukarno to army policies. They also appear distressed over that part of Sukarno's "guided democracy"

concept which calls for the de-emphasis of political parties.

They can be expected to continue national-front tactics, however, as long as they benefit from any identification with Sukarno. They will probably increase their efforts to sow dissension between Sukarno and Nasution. Although undoubtedly greatly disappointed at the election postponement, they can be expected to try to capitalize on it by denouncing it as an obstruction of "the people's will," and they may attempt some test of popular feeling on the issue. 25X1

Prospects

The three elements of Indonesia's power complex remain an essentially unstable mixture despite some cooperation enforced on them in recent weeks by the provincial rebellion. Effective army opposition to the Communist party at some future date depends not alone on the approval of this policy by President Sukarno. Other factors essential for the army's progress toward an effective anti-Communist policy would appear to include success in acquiring enough arms from the free world to permit a straightforward anti-Communist political position; progress, with the cooperation of civilian elements in the government, toward redressing political disunity and economic instability aggravated by the provincial revolt; and Sukarno's trust, particularly his belief that no army leaders will attempt to replace him or seriously challenge his popularity.

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FREE WORLD MONETARY PROBLEMS

There is widespread concern among both the industrial and the underdeveloped countries of the free world over the adequacy of monetary reserves and development funds to support desired rates of economic growth. This concern probably will lead many of the 67 finance ministers meeting in New Delhi from 6 to 10 October as the board of governors of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to press for early major increases in the lending resources of these two agencies.

The fears of a general economic and financial crisis which troubled many free-world leaders a few months ago have been significantly eased by the improving outlook for the American economy and by recent American initiatives for expanding international credit facilities.

Industrial Countries

Economic experts of the OEEC since mid-1958 have generally seen little danger of the United States "exporting" a recession to industrial Europe. They attribute the present leveling off in the Western European economy to anti-inflationary measures taken to curb the boom and to restore exchange stability after the dislocations of Suez and last year's currency crisis.

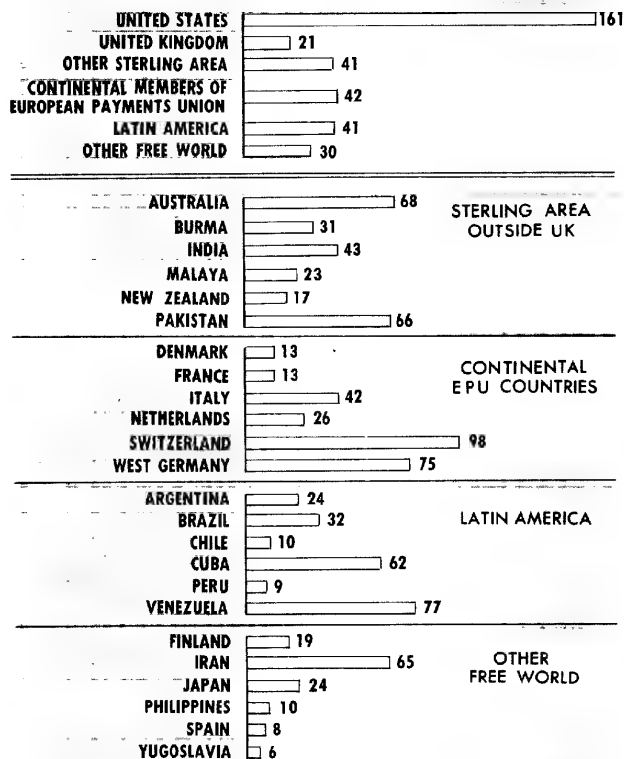
In fact, well-sustained American commodity imports

and sharply reduced trade exports have combined with growing US capital exports to strengthen Western Europe's international financial position. These factors, along with the return of a large amount of the capital withdrawn from Western Europe during the currency crisis, have increased its gold and dollar reserves by a little over a billion dollars during the first half of this year.

In Japan, also, the recession is believed to have been brought on by anti-inflationary measures which succeeded, however, in converting a payments deficit of about \$500,000,000 in the first half of 1957 to a surplus of nearly \$200,000,000

FREE-WORLD GOLD AND FOREIGN EXCHANGE HOLDINGS

(AS PERCENT OF ANNUAL IMPORTS)



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during the first six months of this year.

The industrial countries, however, continue to watch American trends very closely out of concern over possible direct repercussions on their own economies. Greater apprehension is felt over possible indirect effects, such as the possibility that less developed countries, confronted with a reduced American demand for raw materials in the event of a slowdown of the US economy, might in turn curtail their own imports of industrial products. Countries producing raw materials take one third of all Western European exports, compared with 7 percent taken by the United States. These countries have recently maintained high levels of imports only by drawing on their reserves and by heavy borrowing from the IMF, the IBRD, and from private-capital markets at a rate which they are unlikely to be able to continue.

Primary Producing Countries

The economic difficulties among countries producing primary materials originated in a general weakness of commodity prices which has persisted over the past two years. These difficulties have since been considerably aggravated by the economic slowdown in the industrial nations.

In Latin America, depressed world prices for coffee have led to heavy payments deficits and reserve losses in many countries, including Brazil and Colombia, which depend on coffee exports for a major share of their foreign trade. A 50-percent decline in the world price of copper since 1956 and declines in the marketing of lead, tin, and zinc have sharply reduced the foreign exchange earnings of Chile and Bolivia and adversely affected those of Peru and Mexico.

In Asia and the Far East, persistent trade deficits in 1957 reached their highest point since the Korean war. A major factor was the decline in world prices and marketing of rubber and tin. Malaya is in a particularly poor position and the Philippines is faced with a dangerously deteriorated payments balance.

All countries in the Middle East and South Asia except Iran are experiencing foreign exchange difficulties largely attributable to rising imports and worsening terms of trade for some of the areas' principal exports. Emergency assistance is now being arranged for Turkey and India, but the reserves of Pakistan, Afghanistan, Egypt, and the Sudan are also precariously low. Exports from Africa south of the Sahara have in general not yet been seriously affected.

Role of the IMF

The IMF greatly expanded short-term lending operations since early 1956 to assist about one third of its member countries to ward off or recuperate from currency, payments and reserves crises. In so doing, it may well have prevented a general financial crisis which might have had serious political repercussions in several countries. Massive assistance to Britain after the Suez crisis stemmed a run on the pound; France was rescued from near financial collapse early this year; Japan has already and Turkey soon will benefit; India has just been assured of very large IBRD and multinational assistance; and Brazil last summer received substantial aid from the fund to retrieve a badly deteriorated payments and reserves situation.

The fund has also increased the effectiveness of its aid by coordinating its efforts with those of other lending agencies

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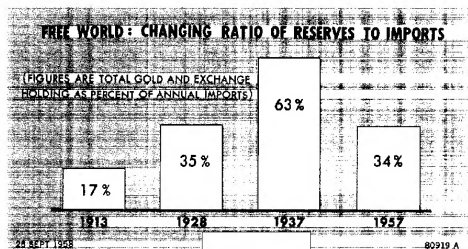
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such as the European Payments Union, the IBRD, and with creditor governments, notably the United States and West Germany. At the same time, fund sponsorship of the joint operations permits an insistence on much stronger corrective measures--as, for example, against domestic inflation--then would be politically possible for an individual creditor nation.

Need for Increased IMF Resources

These expanded operations during the last two-and-one-half years have used twice as much of the fund's gold and dollars as in the previous eight years. As a result, the readily available supply of such funds is now below \$1.5 billion--compared with \$3.4 billion on hand when operations began in 1947. With resources at such a low



level, the danger arises that some countries might withdraw their gold and dollar contributions if they should see a prospective scarcity of funds in relation to requirements.

Britain is particularly sensitive to any possible weakness in the fund, because of its vulnerable trade, payments, and reserves position in maintaining the pound as the payments medium for 40 percent of free world trade. Since its sterling crisis a year ago, Britain has, therefore, strongly urged a general expansion of the fund's gold and dollar holdings. It contends that the quadrupling of the value of world trade between 1937 and 1957 and the consequent reduc-

tion of free-world reserves, excluding those of the United States, from 63 to 34 percent of annual imports has brought about a situation in which these reserves are not adequate to support present levels of world trade with a safe margin. British representatives accordingly advocate at least doubling the fund's present level of authorized gold and dollar holdings.

Britain's contention is often refuted by citing the fact that in the stable and prosperous year of 1928, corresponding world monetary reserves were only 35 percent of imports. The president of the West German Central Bank further insists that any present inadequacy of international monetary reserves is the fault of deficit countries for not balancing investments with savings. He holds that such reserves can only be adequate in the long run when all countries practice monetary discipline to avoid speculative movements and excessively unfavorable terms of payment. This West German financial authority concludes that his country will go along with an increase in gold and dollar resources for the fund only if the amounts are reasonable, all members contribute, and such increases do not entail weakening of monetary discipline in deficit countries.

Staff experts of the fund take the view that neither 1928, with many hidden credit maladjustments, nor 1937, with nominal reserves greatly increased by the dollar devaluation of 1934 and by the low level of world trade, can serve as an adequate criterion for 1958. They conclude that any judgment of the adequacy of present free-world reserves must be conditional, depending both on further strengthening of the international credit system and on future national willingness to pursue flexible fiscal and credit policies and to avoid overambitious investment practices.

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Reactions to US Proposals

Reaction in the Western world to President Eisenhower's announcement on 26 August that the United States would propose at the New Delhi meeting prompt consideration of the advisability of a general increase in quotas of fund member governments has been overwhelmingly favorable. West European economic and financial experts see great merit in the proposal, not only as possibly providing a basis for relieving pressure on sterling, but also for strengthening financial confidence among Continental countries as they adjust to the new Common Market. The British press hails it as the most promising American pronouncement since the Marshall Plan, while officials praise it for diverting pressure on the United Kingdom in the recent Commonwealth conference for establishing a new Commonwealth lending institution, a project which Britain is not in a position to undertake.

The Latin American diplomatic corps is united in its enthusiasm for the proposal, with specific endorsements from both Chile, a deficit nation, and Venezuela, a strong surplus country.

India and other Asian countries have reacted favorably to the American proposal to expand the resources of the IMF. Several of these countries, however, have shown greater interest in the proposal to increase the lending authority of the IBRD and to create an international development fund, since their main concern is in the flow of long-term capital for development. Most nations can be expected to support the proposals at New Delhi, but paying one fourth of their additional contribution to the IMF in gold or dollars will pose serious problems for many.

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